

# The insurance innovation imperative

By **Gary Reader**, Global Head of Insurance  
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Gary Reader

Insurers and intermediaries know that innovation has the potential to disrupt their current business and operating models. And they know that they need to innovate faster than their competitors to defend and grow their business. Yet few have found a 'winning formula' for embedding innovation into their people, products or processes.



Mary Trussell

## Feeling the disruption

The fact that new technologies, innovations and business models are changing the dynamics of the insurance market is clear. More than 8 in 10 insurance executives responding to our recent survey, *Innovation in Insurance*, said that they believe their organization's future success to be tied closely to their ability to innovate ahead of their competitors.

But with new entrants, new technologies and new business models emerging at

an increasingly rapid pace, many insurers are also concerned that innovation will bring more disruption than value. Many are already feeling the heat. In fact, almost half of our survey respondents said that their business models were already being disrupted by new, more nimble competitors.

For some, the risk of disruption and the opportunity for competitive advantage is driving a renewed focus on innovation. In a recent interview with John Geyer, Senior Vice-President of MetLife's

Innovation Program, for the report, *A New World of Opportunity: The innovation imperative*, John noted: “If somebody’s going to disrupt our industry, it might as well be us.”

Indeed, new technologies are reducing losses and costs while saving lives and increasing customer satisfaction, reducing risks and driving new business models and consolidation within the industry. New advances such as driverless cars, machine learning, home sensors and ‘robo-agents’ empowered with artificial intelligence and mobile payments offer a world of opportunity for insurers.

### The capacity and capability to innovate

While many insurers recognize the vast possibilities that innovation brings, many seem reluctant to be first out of the gate. This is not entirely surprising; most organizations responding to our

survey reported that they lack the hallmarks of an innovative organization, such as dedicated budgets, formal strategies, executive-level support and measurement processes.

Even those that want to take first-mover advantage (as almost a third of our respondents’ claim they wanted) face significant challenges catalyzing innovation. In part, this comes down to capacity: 79 percent of respondents across the globe told us that they were already running at full tilt just keeping up with their core requirements.

Capability is also a key concern. Lack of skills and capability was ranked by 74 percent of respondents as a top three barrier to innovation, particularly for smaller and mid-sized organizations and those based in Europe. Simply put, insurers know what they need to do in order to drive innovation but recognize they lack certain skills to achieve it.

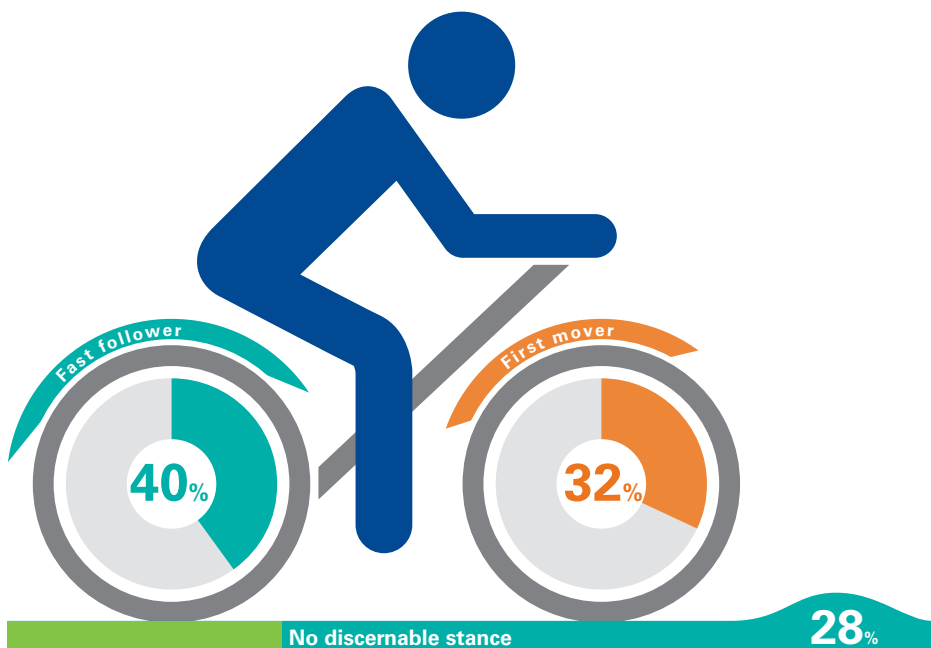
### Are all disruptors disruptive?

Our research suggests that some perceived disruptors may actually be partners for insurance organizations seeking to innovate.

As Steven Mendel, CEO and co-founder of Bought By Many, notes: “Yes, we want to disrupt and change the current process. But our real focus is actually on partnering with insurance organizations to drive new business and help them build longer-term relationships with their customers. We’re much more of a friend to the insurance sector than we are a foe.”

Shaun Williams, CEO of Life Insurance Made Easy (LIME), agrees: “We’re already working with some of the world’s leading traditional insurance organizations to turn our platform into a new channel and source of innovation.”

### First mover versus fast follower for innovation



Source: KPMG International, 2015.

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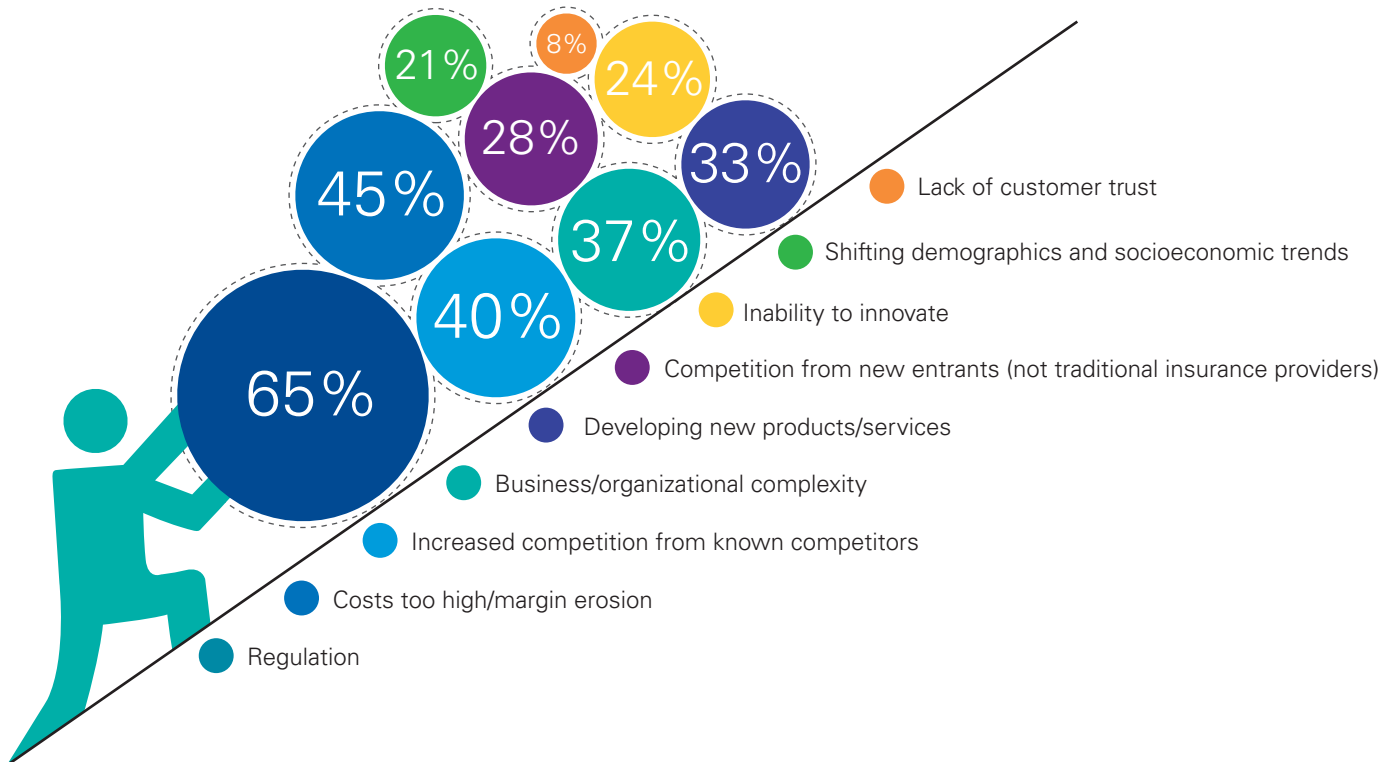
To be fair, most insurers have certainly been working hard to improve their innovation strategy and capabilities. Many have already implemented cultural change programs focused on fostering innovation and training programs to develop idea generation and innovation skills. Others have put their sights on widening their innovation ecosystem by engaging in partnerships with academics, FinTechs and other third parties to drive innovation. Some have even changed their business models or created innovation 'hubs' or 'labs'.

**Lessons from leaders**

Our experience suggests that while all of these previous initiatives are valuable, few organizations have been bold enough in their objectives or their execution to truly drive change. Based on our research, our interviews and our experience, we have identified six key ways that leading insurers are becoming more innovative.

- 1. They are focusing on creating a customer-centric culture.** While more than half of respondents say they have conducted a cultural change program in the past 5 years, our experience suggests that they may have focused their efforts in the wrong area. Rather than trying to become more 'innovative', insurers may instead want to become more customer-centric which, in turn, will drive innovation.
- 2. They are willing to disrupt their existing business models.** Doing more of the same, only faster, is not a recipe for long-term growth. Leading insurance players recognize the need to innovate not only product and service development, but also how they approach innovation itself. Insurers and intermediaries need to be willing to try new models and partner with new stakeholders to truly compete in an innovation-led competitive marketplace.

**What are your organization's biggest challenges in the next 2 years?**



Source: KPMG International, 2015.

3. **They apply agile and dedicated leadership.** Innovation requires leadership, strong executive support and clear vision. There's no secret engine behind a door that creates innovative energy for an organization. It's not about having the best game plan; it's about having a coach that knows which players to put in the field to execute on the game plan. That's how goals are scored.
4. **They mitigate risk by investing and experimenting.** The best companies have discovered ways to link their investments to the expected frequency and severity of risks to ensure they are appropriately matching investment to risk. They have started to experiment with new business models. Looking at the viability of their current business model and the role of technology in their competitive strategy, they are also exploring new business models and businesses as the profile of risk changes.
5. **They understand why they are investing.** While most organizations report that they measure their return on their innovation investments in some way or another, the leading insurers are working to ensure that they have the right alignment with business objectives and are broadening their metrics beyond simple financial ROI calculations to include more subjective measures

such as public reputation or customer engagement.

6. **They learn from others.** We believe partnerships will be key to future success, but we need the right structures, models and infrastructure in order to create value. Large organizations need to learn to partner and all organizations need to learn to partner effectively. Consider alliances with partners outside of insurance to accelerate customer benefits and expand the value chain.

### The road ahead

Our research and discussions with established and start-up players suggest that — to make the most of this new world of opportunity — the insurance industry needs to pivot from a traditionally risk-averse culture to one that encourages experimentation while mitigating financial risk.

To achieve this, insurers will need to tap into new sources of innovation, accessing fresh ideas from employees, customers, investors and partners which, in turn, will require progressive leadership at the top of the organization.

The innovation imperative is clear for insurers. Now it's time to make the most of the world of opportunities that exists for those bold and innovative enough to seize these opportunities to create competitive advantage. ■

## Contributors

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Gary has led KPMG's global insurance practice since October 2014. His career with KPMG has spanned over 28 years, 25 of which have been focused on the insurance sector — as an audit partner from 1996–2000, consulting partner from 2000–2011 and, most recently, as a markets partner. In that time, he has worked in all three regions of KPMG, and his roles and work have taken him to multiple countries. In addition to running our global insurance practice, Gary is the global lead partner for one of the largest insurance firms in the world.

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Mary brings deep expertise covering a broad range of insurance markets — from life and health and personal lines to specialty risks and reinsurance — across Asia Pacific, Europe and North America. Having spent most of her career based in London, Mary moved to Hong Kong in 2009 and most recently to Toronto in 2014. As a member of KPMG's Global Insurance Leadership team, Mary focuses on innovation and high growth markets and leads the development of many of KPMG International's global thought leadership for the insurance industry. In October 2015, Mary was appointed to lead the Insurance practice for KPMG in Canada.